



**DRAFT**

**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES**

**September 9, 2015**

**County Board of Supervisors**

**Hearing Room 1**

**700 H Street**

**Sacramento, CA 95814**

**The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on September 8, 2015 at 9:00am in the County Board of Supervisors Hearing Room 1.**

Committee Board Members Present:

Mr. Michael Rossi, Chair

Mr. Tom Richards

Board Members Present:

Mr. Daniel Curtin

Ms. Thea Selby

Authority Staff Present:

Mr. Jeff Morales, CEO

Mr. Tom Fellenz, Chief Counsel

Mr. Russell Fong, CFO

Mr. Jon Tapping, Director of Risk Management and Project Controls

Mr. Frank Vacca, Chief Program Manager

Mr. Scott Jarvis, Chief Engineer

Ms. Deborah Harper, Chief Administrative Officer

Ms. Paula Rivera, Senior Management Auditor

Mr. Alan Glen, Director of Real Property

Mr. Mark McLoughlin, Director of Environmental Services

Parsons Brinkerhoff Staff Present:

Mr. Gary Griggs, Project Manager

Minutes prepared in the order items were presented during the meeting

**Agenda Item – Minutes from August 2015**

- Mr. Rossi asked for an update on how long we anticipate until the positions are filled from page 3 of the minutes. Mr. Jarvis stated within several months. The exams have been completed and now we are waiting for the lists to be populated. There may be a few positions that will be difficult to recruit for that may take more than several months. Mr. Rossi asked on page 6 regarding the accuracy of the

forecast and when will we have data. Mr. Alan responded that in context of the forecasted delivery date we have added some data to the current Operations Report.

#### **Agenda Item – Action Items from Previous Finance and Audit Committee Meeting**

- None.

#### **Agenda Item - Financial Reports – Russell Fong**

Questions asked and answered. Issues discussed included:

- **Summary of YTD Budget & Expenditures** – Mr. Rossi asked about the difference between the Percentage of Total Budget Expended YTD 2015-16 at 4.7% and 2014-15 at 5.0%. Mr. Fong replied that the difference is due to a slow start this year with vacancies. At this time last year our vacancy rate was 18.5% with 31 total vacancies and this year it is 24% with 54 total vacancies, mostly due to the newly established 45 positions. Of our total 219 positions, 48 are vacant with 30 close to being hired.
- **Executive Budget Summary** – Mr. Rossi commented on page 1 of 27 the Year to Date Expenditures has a forecast of \$35 million and a budget of \$40 million. The divisions with the biggest drop below what the expenditures should be are Program Management and the Financial Office. Mr. Fong explained that the financial office was budgeted for the financial advisor role for \$3.75 million. That contract was moved over to capital outlay and is the reason for the forecast being lower. Program Management is forecasted lower due to lowered interdepartmental contracts which are the Caltrans loan staff contract. Staff will be hired that is already part of the budget to replace the Caltrans loan staff. Mr. Richards asked if tracking the budget is done internally by Mr. Fong's staff. Mr. Fong replied yes. Mr. Richards asked what happens if it is determined the budget will not all be spent. Mr. Fong replied that it is held. If it is a permanent non-spend the budget may be adjusted. Mr. Rossi asked if the engineer positions of the Regional Directors Division report to Mr. Jarvis. Mr. Morales responded yes. They are located in the regions and directly report to Mr. Jarvis through Project Management and administratively report at the regional level. The interview process includes people from Program Management along with Regional Directors on the interview panel to make a collaborative effort to select the people. Mr. Richards asked what their relationship is with the Regional Directors. Mr. Jarvis replied that the Regional Directors provide overall leadership in the regions and they have a certain perspective that he does not have with the stakeholders and stakeholder outreach. The Regional Directors help inform project delivery from their perspective of stakeholder outreach and some of the local politics. It is a collaborative effort but the technical, functional people report up through Mr. Jarvis' chain of command through Project Delivery.
- **Capital Outlay and Expenditures Report** – Mr. Rossi asked on page 3 of 9 with sections San Jose-Merced and Fresno-Bakersfield how close these are to getting done and who approves them being over budget. Mr. McLoughlin replied that we have the Record of Decision (ROD) for Fresno-Bakersfield. For San Jose-Merced it is more about the Wye. It has been delayed for 1 ½ years for design and accommodating the stakeholders. Mr. Rossi asked if it is reasonable to assume that we will continue to exceed budget. Mr. Morales responded that the plan is to bring this to the board in November. Mr. Richards asked who approves or authorizes the ability to exceed budget and what are the implications. Mr. Morales replied that we have an overall budget for the environmental work and we made allocations for each of the segments that we can move around within those segments. We also have flexibility with federal money to transfer construction funds to environmental giving us flexibility. The overall environmental budget has been increased reflecting a better sense of what needs to get done. Mr. McLoughlin added that Bakersfield-Palmdale had a redesign to avoid wind farms that are under development. Mr. Rossi asked for a summary of specific items that are out of pattern or things that have changed so it's easier for board members to understand. Mr. Richards asked when something is finished in each section to include a line item transfer that will go into a contingency account or something like that so we know there is money available to move to somewhere else.
- **Total Project Expenditures with Forecasts** – Mr. Fong commented that 3 boxes added on the bottom of the page are the 3 most asked questions: Program Total, state match to ARRA, and the state match

liability. Mr. Richards asked Mr. Fong to include at the beginning of the document an identification of things that are worthy to be mentioned and that are inconsistent with what has been seen in previous reports.

- **Projects and Initiatives Report** – Ms. Harper stated that we are working diligently to fill our vacancies. Working to get the online exams will expand our candidate pool and allow us to be more nimble filling the vacancies. We are working closely with programs to identify what their needs are and try to expedite the process. Mr. Rossi asked if a breakthrough is anticipated. Ms. Harper replied that it is not uncommon with the state to have a lot of turnover. We are also a lean agency that does things very differently and we have to be very particular how we approve individuals to hire. This can be a longer process. People come thinking that working here is going to be different and it is. Some people have a hard time with that transition so we have attrition. Mr. Rossi added that the problem we have is that 219 is too few people. We need to have a discussion on what real staffing should look like here. Mr. Morales added that this topic is kept yellow (caution, need for corrective action now or soon) to reflect that we do not control a lot of this process. The biggest part of the delay of the 35 new positions is from technical engineering type positions. Although we requested the positions, we did not have the ability to hire from existing state lists. We had to develop new tests and new position descriptions and all that needs to go through CalHR to get approved. Ideally when the budget is enacted and we are told we get 35 new positions we can start the process of hiring the next day. It took 6-8 months before we were able to start that process. Now that we have the exams we are in the hiring process for those positions. Mr. Richards asked if everything that feasibly can be done is being done. Mr. Morales answered yes. Mr. Richards asked where the numbers on the staffing plan came from and how long ago was it created and what is the process to reevaluate the staffing plan? Mr. Morales replied that much of it is in how the Authority was created. A model was used of a small, lean organization, supplemented with consultants. We have worked within the restrictions of Prop 1A that only allows 2.5% of proceeds on administration. We project that we will exhaust the 2.5% in 2 ½ years. Mr. Jarvis added that there is a specific organizational plan that was developed. One of the challenges is the plan needs to be developed about 2 years in advance considering the state budget change proposal (BCP) process. Each of the 35 positions is justified with a plan in place of what that position will be doing. A lot of the positions are in the regions and report to Program Management. Every region was thought out on where it will be in the delivery process and what positions the region need for the regions' government leadership. One of the challenges is we have to be flexible and sometimes reclassify these positions, which takes time. Mr. Richards asked who has the experience to staff a \$68 billion dollar project. Mr. Morales replied that the Authority has gone through the process with the RDP in looking at how to balance their staff with the Authority's staff.
- **Operations Report** – Mr. Rossi asked on page 27 if there is a reason for a contingency of 19.4% for CP2-3 vs. 16.8% for CP1. Mr. Tapping replied that they have different risk profiles. The CP2-3 also applies a higher confidence level at 90%. Mr. Morales added the contingency does not apply a flat percentage.

#### **Agenda Item – Audits – Paula Rivera**

- None.

#### **Agenda Item – CP 1 and 2-3 Project Update**

- None.

#### **Agenda Item – Risk Management**

- **Peer Review Group Semi-Annual Update** – Mr. Morales stated that, as we have gone through the budget process with the Legislature this year, we focused on how they conduct their oversight. We shared with them the reports presented here. They asked the Peer Review Group to identify the areas they thought were important. They identified 10 areas and in most cases we were already reporting it. There were still a few they felt would help the Legislature to keep an eye on things and that is primarily

in the risk discussions. We agreed to report these starting in September.

**-Current Issues**

- No current issues.

**Meeting adjourned at 9:45 am.**